

NKONKOBE ECONOMIC DEVELOPMENT AGENCY

REGISTRATION NUMBER: 2002/007921/08



ANNUAL FINANCIAL STATEMENTS

30 JUNE 2017

NKONKOE ECONOMIC DEVELOPMENT AGENCY

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NKONKOE ECONOMIC DEVELOPMENT AGENCY

GENERAL INFORMATION

Country of incorporation and domicile	South Africa
Legal form of entity	Non Profit Organisation (Section 18A Company)
Nature of business and principal activities	To promote and stimulate economic growth in the Raymond Mhlaba district
Company registration number	2002/007921/08
Registered office	317 Garden Street Alice 5700
Postal address	P O Box 438 Alice 5700
Telephone number	(040) 653 2935
Fax number	(040) 653 2938
E-mail address	mali@nkonkobedevelopment.org.za
Holding entity	Raymond Mhlaba Local Municipality
Bankers	ABSA Bank
Auditors	Auditor General of South Africa
Chief Executive Officer (CEO)	Mr MH Mali
Board Members	Ms Fezeka Maqwati (Chairperson) Mr Mpho Pebane Mr Mlungisi Nyweba Ms Vicky Nkomana

NKONKOBÉ ECONOMIC DEVELOPMENT AGENCY

DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors are required by the Companies Act of South Africa, 2008 as amended, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Entity as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with Generally Recognised Accounting Practice (GRAP). The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with Generally Recognised Accounting Practice (GRAP) and the Companies Act of South Africa, 2008 as amended, and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

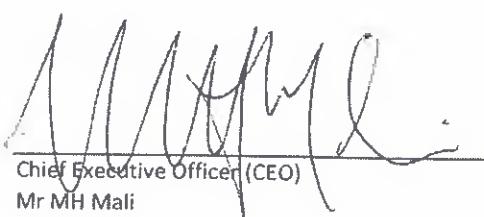
The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Entity and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Entity and all employees are required to maintain the highest ethical standards in ensuring the Entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Entity is on identifying, assessing, managing and monitoring all known forms of risk across the Entity. While operating risk cannot be fully eliminated, the Entity endeavours to minimise it by ensuring that appropriate controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the Entity's cash flow forecast for the period ending 30 June 2018 and, in the light of this review and the current financial position, they are satisfied that the Entity has or has access to adequate resources to continue in operational existence for the foreseeable future. For the current year and for the foreseeable future the Entity will be dependable on grants from the Raymond Mhlaba Local Municipality.

The external auditors are responsible for independently providing reasonable assurance by reviewing and reporting on the Entity's annual financial statements.

The annual financial statements set out on pages 2 to 46, which have been prepared on the going concern basis, were approved by the board and were signed on its behalf by:



Chief Executive Officer (CEO)
Mr MH Mali

31/08/2017
Date

NKONKOBE ECONOMIC DEVELOPMENT AGENCY

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2017

	Notes	2017 R	2016 R
ASSETS			
Current Assets		2 662 992	1 522 161
Cash and Cash Equivalents	2	946 225	101 990
Receivables from exchange transactions	3	155 938	146 560
Receivables from non-exchange transactions	4	761 074	124 385
VAT Receivable	5	449 238	399 275
Inventory	6	350 517	749 950
Non-Current Assets		1 091 209	1 421 640
Property, Plant and Equipment	7	1 091 209	1 421 640
Total Assets		3 754 201	2 943 801
Current Liabilities		1 391 813	2 800 987
Payables from Exchange Transactions	8	474 405	2 532 678
Unspent Public Contributions and Donations	9	637 158	-
Current Employee benefits	10	280 250	268 309
Total Liabilities		1 391 813	2 800 987
NET ASSETS		2 362 388	142 814
EQUITY			
Accumulated Surplus		2 362 388	142 814
TOTAL EQUITY		2 362 388	142 814

NKONKOE ECONOMIC DEVELOPMENT AGENCY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDING 30 JUNE 2017

	Notes	2017 R (Actual)	2016 R (Restated)
REVENUE			
REVENUE FROM NON-EXCHANGE TRANSACTIONS		12 431 981	9 360 998
Transfer Revenue		12 419 061	9 360 998
Government Grants and Subsidies	11	12 381 836	9 360 998
Public Contributions and Donations	12	-	-
Contributed Property, Plant and Equipment	13	37 225	-
Other Revenue		12 920	-
Insurance Receipts		12 920	-
REVENUE FROM EXCHANGE TRANSACTIONS		306 102	464 997
Gross deficit with Sale of Goods		(547 630)	(463 984)
Sale of Goods		836 343	674 322
Cost of Sales		(1 383 973)	(1 138 306)
Other Operating Activities		853 732	928 981
Rental of Facilities and Equipment		6 840	-
Interest Earned - external investments		3 951	80 584
Other Income	14	842 941	848 397
TOTAL REVENUE		12 738 083	9 825 995
EXPENDITURE			
Employee Related Costs	15	3 489 034	3 924 211
Remuneration of Board Members	16	58 008	68 871
Debt Impairment	17	4 667	481 659
Depreciation and Amortisation	18	362 838	335 548
Repairs and Maintenance	19	-	-
Finance Charges	20	193 508	105 703
Other Expenditure	21	6 396 936	4 583 287
Loss on disposal of non-monetary assets		13 517	3 095
TOTAL EXPENDITURE		10 518 508	9 502 375
NET SURPLUS FOR THE YEAR		2 219 575	323 621

NKONKOE ECONOMIC DEVELOPMENT AGENCY

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDING 30 JUNE 2017

	ACCUMULATED SURPLUS R	TOTAL R
Balance on 30 June 2015	(180 808)	(180 808)
Net Surplus for the year	323 622	323 622
Balance on 30 June 2016	142 814	142 814
Net Surplus for the year	2 219 574	2 219 574
Balance on 30 June 2017	2 362 388	2 362 388

NKONKOE ECONOMIC DEVELOPMENT AGENCY

CASH FLOW STATEMENT FOR THE YEAR ENDING 30 JUNE 2017

	Notes	2017 R	2016 R
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts			
Other revenue		2 322 157	1 410 837
Government Grants		8 645 641	5 809 492
Interest		3 951	80 584
Payments			
Suppliers and employees		(9 925 306)	(8 784 616)
Interest Paid		(193 508)	(105 703)
NET CASH FROM/(USED) OPERATING ACTIVITIES	23	852 934	(1 589 407)
CASH FLOW FROM INVESTING ACTIVITIES			
Payments			
Purchase of Property, Plant and Equipment		(8 700)	(651 907)
NET CASH USED IN INVESTING ACTIVITIES		(8 700)	(651 907)
NET INCREASE/(DECREASE) IN CASH HELD		844 234	(2 241 314)
Cash and Cash Equivalents at the beginning of the year		101 990	2 343 305
Cash and Cash Equivalents at the end of the year		946 225	101 990

NKONKOBE ECONOMIC DEVELOPMENT AGENCY

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	ORIGINAL BUDGET R	ADJUSTMENTS R	FINAL BUDGET R	ACTUAL R	ACTUAL vs FINAL BUDGET R
STATEMENT OF FINANCIAL PERFORMANCE					
Revenue					
Government Grants and Subsidies	18 890 000	(5 662 000)	13 228 000	12 419 061	(808 939)
Interest Earned - external investments	162 000	(161 000)	1 000	3 951	2 951
Other Revenue	1 089 000	(20 000)	1 069 000	315 071	(753 929)
Total Revenue	20 141 000	(5 843 000)	14 298 000	12 738 083	(1 559 917)
Expenditure					
Employee Related Costs	3 951 600	45 000	3 996 600	3 489 034	(507 566)
Remuneration of Board Members	130 000	(58 000)	72 000	58 008	(13 992)
Debt Impairment	-	-	-	4 667	4 667
Depreciation and Amortisation	55 000	(55 000)	-	362 838	362 838
Finance Charges	6 500	-	6 500	193 508	187 008
Other Expenditure	14 709 000	(6 558 000)	8 151 000	6 410 453	(1 740 547)
Total Expenditure	18 852 100	(6 626 000)	12 226 100	10 518 508	(1 707 592)
NET DEFICIT FOR THE YEAR	1 288 900	783 000	2 071 900	2 219 575	147 675
CAPITAL EXPENDITURE	200 000	(120 000)	80 000	8 699	(71 301)

No Statement of Financial Position or Cash Flow Statement were prepared for budget purposes, so therefore no comparison between budgeted amounts and actual amounts can be disclosed.

Refer to note 25 for explanations of material variances.

NKONKOBE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1 ACCOUNTING POLICIES

1.01 BASIS OF PREPARATION

The financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention, unless specified otherwise.

The financial statements have been prepared in accordance with the Municipal Finance Management Act (MFMA) and effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 (Revised – November 2013) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

Assets, liabilities, revenue and expenses have not been offset, except when offsetting is permitted or required by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise. The details of any changes in accounting policies are explained in the relevant notes to the financial statements.

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below.

1.02 TRANSITIONAL PROVISIONS

The Entity did not take advantage of any transitional provisions in the current year.

1.03 PRESENTATION CURRENCY

The financial statements are presented in South African Rand, rounded off to the nearest Rand, which is the Entity's functional currency.

1.04 GOING CONCERN ASSUMPTION

These financial statements have been prepared on a going concern basis.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.05 COMPARATIVE INFORMATION

1.05.1 Prior year comparatives

When the presentation or classification of items in the financial statements are amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatement of comparative information. The nature and reason for the reclassification is disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.05.2 Amended Accounting Policies

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements.

No significant amendments were made to the accounting policy in the current year.

1.06 MATERIALITY

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total operating expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

1.07 BUDGET INFORMATION

Budget information is presented on the accrual basis and is based on the same fiscal period as the actual amounts.

The Statement of Comparison of Budget and Actual Amounts includes the comparison between the approved and final budget amounts, as well as a comparison between the actual amounts and final budget amounts.

The disclosure of comparative information in respect of the previous period is not required by the Standards of GRAP.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.08 NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

1.08.1 Effective dates determined

Where a Standard of GRAP has been issued but is not yet effective, the Entity may resolve to early adopt such a Standard of GRAP if an effective date has been determined by the Minister of Finance.

The Entity resolved to early adopt any of the following amended Standards of GRAP which were issued but are not yet effective:

Standard	Description	Effective Date
GRAP 12 (2017)	Inventories	1 April 2018
GRAP 16 (2017)	Investment Property	1 April 2018
GRAP 17 (2017)	Property, Plant and Equipment	1 April 2018
GRAP 21 (2017)	Impairment of non-cash-generating assets	1 April 2018
GRAP 26 (2017)	Impairment of cash-generating assets	1 April 2018
GRAP 27 (2017)	Agriculture	1 April 2018
GRAP 31 (2017)	Intangible Assets	1 April 2018
GRAP 103 (2017)	Heritage Assets	1 April 2018
GRAP 106 (2017)	Transfer of Functions Between Entities Not Under Common Control	1 April 2018

The effect of the above-mentioned amended Standards of GRAP which were early adopted is considered insignificant. The amendments to the Standards of GRAP mainly relate to the clarification of accounting principles.

The Entity resolved not to early adopt the following Interpretation of the Standard of GRAP which was issued but is not yet effective:

Standard	Description	Effective Date
iGRAP 18 (2017)	Recognition and Derecognition of Land	1 April 2019

When the above-mentioned Interpretation of the Standards of GRAP becomes effective, the effect will be insignificant as the Entity's current treatment is already in line with the interpretation's requirements and will only result in additional disclosure.

The Entity further resolved not to early adopt Directive 12 - "The Selection of an Appropriate Reporting Framework by Public Entities" (effective 1 April 2018) as this Directive is not applicable to municipal entities and will have no impact on the Entity once it becomes effective.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.08.2 Effective dates not yet determined

Where a Standard of GRAP has been issued but not yet effective and the Minister of Finance has not yet determined an effective date, the Entity may select to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event.

The following Standards of GRAP have been issued but are not yet effective as the Minister of Finance has not yet determined the effective date for application:

1.08.2.1 GRAP 18 - Segment Reporting (Original - February 2011)

The objective of this Standard is to establish principles for reporting financial information by segments.

Preliminary investigations indicated that, other than additional disclosure, the impact of the Standards on the financial statements will be not be significant.

1.08.2.2 GRAP 20 - Related Party Disclosure (Original - June 2011)

The objective of this Standard is to ensure that a Entity's financial statements contains the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The Entity resolved to develop an accounting policy as set out in note 1.31 and also adopt the disclosure requirements of this Standard.

The impact of this Standard on the financial statements will be minimal.

1.08.2.3 GRAP 32 - Service Concession Arrangements: Grantor (Original - August 2013)

The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor and a public sector entity.

Preliminary investigations indicated that, other than possibly additional disclosure, the impact of the Standards on the financial statements will be not be significant.

1.08.2.4 GRAP 34 - Separate Financial Statements (Original - March 2017)

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

No significant impact is expected as the Entity has no investments in any entities.

1.08.2.5 GRAP 35 - Consolidated Financial Statements (Original - March 2017)

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

No significant impact is expected as the Entity does not control any entities.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.08.2.6 GRAP 36 - Investments in Associates and Joint Ventures (Original - March 2017)

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint

No significant impact is expected as the Entity does not have investments in any associates or joint ventures.

1.08.2.7 GRAP 37 - Joint Arrangements (Original - March 2017)

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

No significant impact is expected as the Entity does not have an interest in any arrangements that are controlled jointly.

1.08.2.8 GRAP 38 - Disclosure of Interests in Other Entities (Original - March 2017)

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- (a) the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- (b) the effects of those interests on its financial position, financial performance and cash flows.

No significant impact is expected as the Municipality does not have an interest in any entities, associates, joint ventures or joint arrangements.

1.08.2.9 GRAP 108 - Statutory Receivables (Original - September 2013)

The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

The Entity resolved to develop an accounting policy as set out in note 1.17.

The impact of this Standard on the financial statements will be minimal.

1.08.2.10 GRAP 109 - Accounting by Principles and Agents (Original - July 2015)

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.

No significant impact is expected as the Entity's current treatment is already in line with the Standard's requirements.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.08.2.11 GRAP 110 - Living and Non-living Resources (Original - March 2017)

The objective of this Standard is to prescribe the:

- (a) recognition, measurement, presentation and disclosure requirements for living resources; and
- (b) disclosure requirements for non-living resources.

Preliminary investigations indicated that the Entity does not have non-living resources that fall within the scope of this Standard.

1.08.2.12 IGRAP 17 - Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards provides guidance to the grantor where it has entered into a service concession arrangement, but only controls a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

Preliminary investigations indicated that, other than possibly additional disclosure, the impact of the Standards on the financial statements will be not be significant.

1.09 PROPERTY, PLANT AND EQUIPMENT

1.09.1 Initial Recognition

Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if it is probable that future economic benefits or service potential associated with the item will flow to the Entity, and the cost or fair value of the item can be measured reliably.

Items of property, plant and equipment are initially recognised at cost on its acquisition date. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Entity. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired through a non-exchange transaction, the cost is deemed to be equal to the fair value of that asset as at date of acquisition and any other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.09.2 Subsequent Measurement - Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Entity replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits or service potential associated with the asset.

1.09.3 Depreciation

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Entity. Depreciation of an asset ceases at the date that the asset is derecognised.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. The depreciation charge for each period is recognised in Statement of Financial Performance, unless it is included in the carrying amount of another asset.

The depreciation method is reviewed at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

At each reporting date the Entity assesses whether there is any indication that expectations about the residual value and the useful life of an asset may have changed since the preceding reporting date. If any such indication exists, the expected residual value and useful life are revised and the effect of any changes in estimate accounted for on the a prospective basis.

The annual depreciation rates are based on the following estimated useful lives:

	YEARS
Plant and Machinery	5
Furniture and fittings	5 - 8
Motor Vehicles	5
Office Equipment	5
IT Equipment	5

1.09.4 Impairment

Property, plant and equipment is reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.09.5 Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is recognised in the Statement of Financial Performance when the compensation becomes receivable.

1.10 IMPAIRMENT OF NON-MONETARY ASSETS

An impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

Cash-generating assets are assets held with the primary objective of generating a commercial return. Non-cash-generating assets are assets other than cash-generating assets.

The Entity assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Entity estimates the recoverable amount of the asset.

1.10.1 Recoverable amount of Cash-generating assets

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

The best evidence of fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

1.10.2 Recoverable amount of Non-cash-generating assets

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use.

The value in use for a non-cash generating asset is the present value of the asset's remaining service potential. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.10.3 Impairment loss

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

An impairment loss of assets carried at a revalued amount in accordance with another Standard of GRAP is treated as a revaluation decrease in accordance with that Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.10.4 Reversal of an impairment loss

The Entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

A reversal of an impairment loss of assets carried at a revalued amount in accordance with another Standard of GRAP is treated as a revaluation increase in accordance with that Standard of GRAP.

After the reversal of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.11 INVENTORIES

1.11.1 Initial Recognition

Inventories are assets:

- (a) in the form of materials or supplies to be consumed in the production process;
- (b) in the form of materials or supplies to be consumed or distributed in the rendering of services;
- (c) held for sale or distribution in the ordinary course of operations; or
- (d) in the process of production for sale or distribution.

Inventories are recognised as an asset if it is probable that future economic benefits or service potential associated with the item will flow to the Entity, and the cost of the inventories can be measured reliably.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventories are acquired through a non-exchange transaction, the cost is measured at the fair value as at the date of acquisition plus any other costs in bringing the inventories to their current location and condition.

1.11.2 Subsequent Measurement

When inventories are sold, exchanged or distributed the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expense is recognised when the goods are distributed, or related service is rendered.

Inventories are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution. Current replacement cost is the cost the Entity would incur to acquire the asset on the reporting date.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories is recognised as an expense in the period the write-down or loss occurs.

The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The basis of allocating cost to inventory items is the weighted average method.

1.12 EMPLOYEE BENEFITS

1.12.1 Short-term Benefits

1.12.1.1 Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at reporting date and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term. Accumulated leave is vesting.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.13 PROVISIONS

A provision is a liability of uncertain timing or amount. Provisions are recognised when the Entity has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made.

Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when it is virtually certain that reimbursement will be received if the Entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement will not exceed the amount of the provision. In the Statement of Financial Performance, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

- (a) The Entity has a detailed formal plan for the restructuring identifying at least:
 - the business or part of a business concerned;
 - the principal locations affected;
 - the location, function and approximate number of employees who will be compensated for terminating their services;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented.

- (b) The Entity has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision is derecognised.

1.14 CONTRIBUTIONS FROM OWNERS

Ordinary shares are classified as Contributions from owners.

Ordinary shares represent an equity instrument which entitles the owner to a residual interest in the assets of an Entity after deducting all of its liabilities.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.15 LEASES

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

1.15.1 Entity as Lessee

1.15.1.1 *Finance Leases*

At the commencement of the lease term, the Entity recognises assets acquired under finance leases as assets and the associated lease obligations as liabilities in the Statement of Financial Position.

At the inception of the lease, the assets and liabilities are recognised at the lower of the fair value of the leased property and the present value of the minimum lease payments. The discount rate to be used in calculating the present value of the minimum lease payment is the interest rate implicit in the lease. If the rate implicit to the lease is not available the Entity's incremental borrowing rate is used. Any initial direct costs of the Entity are added to the amount recognised as an asset.

Subsequent to initial recognition, the minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents, if any, are charged as expenses to the Statement of Financial Performance in the periods in which they are incurred. The leased assets are accounted for in accordance with the stated accounting policies applicable to the assets.

1.15.1.2 *Operating leases*

Lease payment under an operating lease is recognised as an expense in the Statement of Financial Performance on a straight-line basis over lease term, unless another systematic basis is more representative of the time pattern of the user's benefit. The difference between the straight-lined expenses and actual payments made will give rise to a liability.

1.15.2 Entity as Lessor

1.15.2.1 *Finance Leases*

The Entity recognises lease payments receivable under a finance lease as assets (receivable) in the Statement of Financial Position. The asset (receivable) is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Entity, discounted at the interest rate implicit in the lease.

The asset (receivable) is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis in the Statement of Financial Performance.

1.15.2.2 *Operating Leases*

Operating lease revenue is recognised in the Statement of Financial Performance on a straight-line basis over the term of the relevant lease, unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished. The difference between the straight-lined revenue and actual payments received will give rise to an asset.

NKONKOBE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.16 FINANCIAL INSTRUMENTS

1.16.1 Initial Recognition

Financial instruments (financial assets and financial liabilities) are recognised on the Entity's Statement of Financial Position when it becomes party to the contractual provisions of the instrument.

Financial instruments are initially recognised at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. If finance charges in respect of financial assets and financial liabilities are significantly different from similar charges usually obtained in an open market transaction, adjusted for the specific risks of the Entity, such differences are immediately recognised in the period it occurs, and the unamortised portion adjusted over the period of the loan transactions.

1.16.2 Subsequent Measurement

Financial instruments are categorised as follow:

- (a) **Financial instruments at amortised cost** are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. They are included in current assets or current liabilities, except for maturities greater than 12 months, which are classified as non-current. After initial recognition, both financial assets and financial liabilities are measured at amortised cost, using the effective interest rate method. Financial assets are also subject to an impairment review.
- (b) **Financial instruments at cost** are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured. Both financial assets and financial liabilities are subsequently measured at cost. Financial assets are subject to an impairment review.
- (c) **Financial instruments at fair value** comprise of financial assets or financial liabilities that are:
 - (i) derivatives;
 - (ii) combined instruments that are designated at fair value;
 - (iii) instruments held for trading;
 - (iv) non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; or
 - (v) financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Both, financial assets and financial liabilities are subsequently measured at fair value with unrealised gains or losses recognised directly in the Statement of Financial Performance.

1.16.3 Impairment and uncollectability of financial assets

Financial assets, other than those at fair value, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence of impairment of financial assets.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.16.3.1 *Financial assets measured at amortised cost*

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Cash flows relating to short-term financial assets are not discounted where the effect of discounting is immaterial. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the Statement of Financial Performance.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment is reversed by adjusting an allowance account. The amount of the reversal is recognised in Statement of Financial Performance.

1.16.3.2 *Financial assets measured at cost*

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses is not be reversed.

1.16.4 **Derecognition of financial instruments**

1.16.4.1 *Financial assets*

The Entity derecognises financial assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. Financial assets (receivables) are also derecognised when Council approves the write-off of financial assets due to non-recoverability.

If the Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Entity recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Entity continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

1.16.4.2 *Financial liabilities*

The Entity derecognises financial liabilities when the Entity's obligations are discharged, cancelled or they expire.

The Entity recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

1.16.5 **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.17 STATUTORY RECEIVABLES

Statutory receivables arise from legislation, supporting regulations, or similar means and require settlement by another entity in cash or another financial asset. Statutory receivables can arise from both exchange and non-exchange transactions.

1.17.1 Initial Recognition

Statutory receivables are recognised when the related revenue (exchange or non-exchange revenue) is recognised or when the receivable meets the definition of an asset. The Entity initially measure statutory receivables at their transaction amount.

1.17.2 Subsequent Measurement

The Entity measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is subsequently changed to reflect any interest or other charges that may have accrued on the receivable, less any impairment losses and amounts derecognised.

1.17.3 Impairment and uncollectability of statutory receivables

The Entity assesses at each reporting date whether there is any indication that a statutory receivable may be impaired.

If there is an indication that a statutory receivable may be impaired, the Entity measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable is reduced, through the use of an allowance account. The amount of the loss is recognised in the Statement of Financial Performance. In estimating the future cash flows, the Entity considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the Entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and any risks specific to the statutory receivable for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows. Any previously recognised impairment loss is adjusted by adjusting the allowance account. The amount of any adjustment is recognised in the Statement of Financial Performance.

1.17.3 Derecognition

The Entity derecognises a statutory receivable when the rights to the cash flows from the receivable are settled, expire or are waived or the Entity transfers the receivable and substantially all the risks and rewards of ownership of the receivable to another entity.

When the Entity, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of receivable to another entity, the Entity derecognises the receivable and recognises separately any rights and obligations created or retained in the transfer.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.18 CASH AND CASH EQUIVALENTS

Cash includes cash on hand, cash held with banks, and call deposits. Cash equivalents are short-term highly liquid investments with registered banking institutions with maturities of three months or less from inception, readily convertible to cash without significant change in value.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred in the Statement of Financial Performance.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any bank overdrafts.

1.19 RECEIVABLES

Receivables are recognised initially at fair value, which approximates amortised cost less provision for impairment. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of receivables is established when there is objective evidence that the Entity will not be able to collect all amounts due according to the original terms of receivables. An estimate is made for impairment of receivables, based on past default experience of all outstanding amounts at reporting date.

Bad debts are written off in the year during which they are identified as irrecoverable, subject to the approval by the appropriate delegated authority. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the Statement of Financial Performance.

1.20 TAXES (VALUE ADDED TAX)

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value Added Tax recoverable from, or payable to, the taxation authority is included in the Statement of Financial Position. The Entity accounts for value-added tax (VAT) on the payment basis.

1.21 PAYABLES AND ANNUITY LOANS

Payables and annuity loans are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

1.22 CONDITIONAL GOVERNMENT GRANTS AND PUBLIC CONTRIBUTIONS

Grants, transfers and donations received or receivable are recognised as assets when the resources that have been transferred to the Entity meet the definition and criteria for recognition as assets.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

Conditional grants, transfers and donations are recognised as revenue to the extent that the Entity has complied with the conditions embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the conditions have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

The liability recognised to the extent that the conditions associated with the grant, transfer or donation have not been met, always has to be cash-backed. The cash which backs up the liability is invested as a individual investment or part of the general investments of the Entity until it is utilised.

Interest earned on investments of grants, transfers and donations are treated in accordance with conditions as stipulated in the agreement. If it is payable to the grantor it is recorded as part of the creditor and if it is the Entity's interest it is recognised as interest earned in the Statement of Financial Performance.

1.23 REVENUE

At the time of initial recognition, the full amount of revenue is recognised where the Entity has an enforceable legal obligation to collect, unless the Entity has no intention of collecting this revenue. Where the Entity has no intention of collecting the revenue, rebates and discounts are offset against the related revenue. If the Entity does not successfully enforce its obligation to collect the revenue this would be considered a subsequent event.

1.23.1 Revenue from Non-Exchange Transactions

Revenue from non-exchange transactions refers to transactions where the Entity received revenue from another entity without directly giving approximately equal value in exchange.

Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

1.23.1.1 Transfer Revenue

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred, meet the criteria for recognition as an asset. A corresponding liability is recognised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met.

Grants, transfers and donations without any conditions attached are recognised as revenue when the asset is recognised.

1.23.1.2 Insurance Receipts

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.23.1.3 *Unclaimed deposits*

All unclaimed deposits are initially recognised as a liability until 36 months expires, when all unclaimed deposits into the Entity's bank account will be treated as revenue. This policy is in line with prescribed debt principle as enforced by law.

1.23.1.4 *Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure*

Income from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the MFMA (Act 56 of 2003), and is recognised upon the recovery thereof from the responsible party.

1.23.1.5 *Services in-kind*

Services in-kind include services provided by individuals to the Entity at no charge or where the Entity has the right to use assets at no charge.

The Entity's recognises services in-kind that are significant to its operations as assets and recognises the related revenue when it is probable that the future economic benefits or service potential will flow to the Entity and the fair value of the assets can be measured reliably.

When the criteria for recognition is satisfied, services in-kind are recognised at their fair value as at the date of acquisition.

If the services in-kind are not significant to the Entity's operations or does not satisfy the criteria for recognition, the Entity only disclose the nature and type of services in-kind received during the reporting period.

1.23.1.6 *Contributed Assets*

Contributed assets are recognised at fair value when such items of property, plant and equipment qualifies for recognition and become available for use by the Entity.

1.23.2 *Revenue from Exchange Transactions*

Revenue from exchange transactions refers to revenue that accrued to the Entity directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable.

1.23.2.1 *Investment income*

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

1.23.2.3 *Rental income*

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

NKONKOBE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.23.2.4 *Income from Agency Services*

Revenue arising out of situations where the Entity acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the Entity as compensation for executing the agreed services.

Income from agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

1.23.2.5 *Other Tariffs*

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

1.23.2.6 *Sale of goods*

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- (a) The Entity has transferred to the purchaser the significant risks and rewards of ownership of the goods.
- (b) The Entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- (c) The amount of revenue can be measured reliably.
- (d) It is probable that the economic benefits or service potential associated with the transaction will flow to the Entity.
- (e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.23.2.7 *Deferred payment*

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

1.24 BORROWING COSTS

Borrowing costs that are incurred by the Entity are expensed in the Statement of Financial Performance in the period during which they are incurred, regardless of how the borrowings are applied.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.25 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.26 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Entity's Supply Chain Management Policy. Irregular expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.27 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.28 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity.

The Entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

1.29 CAPITAL COMMITMENTS

Capital commitments disclosed in the financial statements represents the contractual balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.30 EVENTS AFTER REPORTING DATE

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- (b) those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

If non-adjusting events after the reporting date are material, the Entity discloses the nature and an estimate of the financial effect.

1.31 RELATED PARTIES

The Entity regards a related party as a person or an entity with the ability to control the Entity either individually or jointly, or the ability to exercise significant influence over the Entity, or vice versa.

Management is regarded as a related party and comprises the Board Members, Chief Executive Officer and Chief Finance Manager.

A close family member of management is also considered to be related party. A person is considered to be a close member of the family of another person if they are married or live together in a relationship similar to a marriage or are separated by no more than two degrees of natural or legal consanguinity or affinity.

Remuneration of management includes remuneration derived for services provided to the Entity in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Entity for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Entity.

The Entity operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms, are disclosed.

1.32 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Entity's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

1.32.1 Impairment of Receivables

The calculation in respect of the impairment of receivables is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

1.32.2 Useful lives and residual values

The useful lives of assets are based on management's estimates. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

The estimated residual values of assets are also based on management's judgement on whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time.

1.32.3 Provisions and Contingent Liabilities

Management's judgement is required when recognising and measuring provisions, as well as when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value at the reporting date of the expected future cash flows to rehabilitate the landfill site. The discount rate used to calculate the effect of time value of money is linked to the index for earthwork as published by Statistics South Africa.

1.32.4 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management. In making the judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in the Standard of GRAP on Financial Instruments.

1.32.5 Revenue Recognition

Accounting Policy on Revenue from Non-Exchange Transactions and Accounting Policy on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Entity.

In making their judgement, management considered the detailed criteria for the recognition of revenue as prescribed in the Standard of GRAP on Revenue from Exchange Transactions and Standard of GRAP on Revenue from Non-Exchange Transactions. Specifically, when goods are sold, whether the significant risks and rewards of ownership of the goods have been transferred to the buyer and when services are rendered, whether the service has been performed.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

Figures in Rand

2017

2016

2 CASH AND CASH EQUIVALENTS

Bank Accounts	942 794	33 177
Call Deposits	3 286	68 193
Cash on hand	145	620
Total	946 225	101 990

Due to the short term nature of cash deposits, all balances included above is in line with their fair value.

Cash and Cash Equivalents are held to support the following commitments:

Unspent Public Contributions and Donations	637 158	-
Working Capital Requirements	309 067	101 990
Total	946 225	101 990

Bank Accounts

ABSA - Account number 40 7657 5039

Bank Statement Balance - Opening Balance	33 177	158 964
Bank Statement Balance - Closing Balance	942 794	33 177
Cashbook Balance - Opening Balance	33 177	158 964
Cashbook Balance - Closing Balance	942 794	33 177

Call Deposits

ABSA - NEDA	- Acc 9250166073	1 357	67 175
ABSA - Blockyard	- Acc 9303723627	1 929	1 019
		3 286	68 193

3 RECEIVABLES FROM EXCHANGE TRANSACTIONS

Sundry Debtors	160 605	146 560
Less: Allowance for Debt Impairment	(4 667)	-
Total	155 938	146 560

The fair value of other receivables approximates their carrying value.

Reconciliation of Allowance for Debt Impairment

Balance at the beginning of the year	-	-
Movement in the contribution to the provision	4 667	-
Bad Debts Written off	-	-
Balance at the end of the year	4 667	-

Ageing of Sundry Debtors

Current (0 - 30 days)	27 557	47 368
Past Due (31 - 60 Days)	92 095	16 865
Past Due (61 - 90 Days)	29 446	61 691
Past Due (90 Days +)	11 507	20 636
Total	160 605	146 560

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

Figures in Rand

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2016

4 RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Unpaid Conditional Government Grants	761 074	124 385
Total	761 074	124 385

5 VAT RECEIVABLE

VAT Receivable	930 897	880 934
Provision for Impairment	(481 659)	(481 659)
Total	449 238	399 275

VAT is accounted for on the payment basis.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies

The provision for impairment relates to assessments made by SARS, which has not been investigated by the Entity in order to confirm the validity thereof. If the investigations reveal that the assessments are valid, the Entity shall write off the VAT in accordance with the assessment.

6 INVENTORY

Finished Goods	178 703	202 203
Raw Materials	171 814	547 747
Total	350 517	749 950

Inventory is disclosed at the lower of cost or net realisable value.

No inventory were pledged as security for liabilities.

NKONKOE ECONOMIC DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2017

7 PROPERTY, PLANT AND EQUIPMENT

	Plant and Machinery R	Furniture and fittings R	Motor Vehicles R	IT Equipment R	Infrastructure R	Total R
30 JUNE 2017						
Opening Carrying Value	670 960	112 041	420 883	62 351	155 406	1 421 640
Cost	852 138	352 742	855 854	270 613	155 406	2 486 754
Accumulated Depreciation	(181 179)	(240 701)	(434 971)	(208 263)	-	(1 065 113)
Additions	-	-	-	8 699	-	8 699
Contributed Assets	-	37 225	-	-	-	37 225
Depreciation for the year	(142 015)	(44 051)	(113 453)	(32 238)	(31 081)	(362 838)
Disposals	{1}	(12 682)	-	(834)	-	(13 517)
Cost	(9 432)	(38 348)	-	(32 143)	-	(79 923)
Accumulated Depreciation	9 431	25 666	-	31 309	-	66 406
Closing Carrying Value	528 944	92 532	307 430	37 977	124 325	1 091 209
Cost	842 706	351 619	855 854	247 169	155 406	2 452 754
Accumulated Depreciation	(313 762)	(259 087)	(548 424)	(209 192)	(31 081)	(1 361 545)
30 JUNE 2016						
Opening Carrying Value	210 571	91 591	552 511	98 296	155 406	1 108 375
Cost	268 090	295 038	855 854	269 885	155 406	1 844 273
Accumulated Depreciation	(57 519)	(203 447)	(303 343)	(171 589)	-	(735 898)
Additions	584 048	57 704	-	10 156	-	651 908
Depreciation for the year	(123 660)	(37 254)	(131 628)	(43 007)	-	(335 548)
Disposals	-	-	-	(3 095)	-	(3 095)
Cost	-	-	-	(9 428)	-	(9 428)
Accumulated Depreciation	-	-	-	6 333	-	6 333
Closing Carrying Value	670 960	112 041	420 883	62 351	155 406	1 421 640
Cost	852 138	352 742	855 854	270 613	155 406	2 486 754
Accumulated Depreciation	(181 179)	(240 701)	(434 971)	(208 263)	-	(1 065 113)

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8 PAYABLES FROM EXCHANGE TRANSACTIONS

Trade Payables	474 405	2 529 422
Sundry Creditors	-	3 256
Total	474 405	2 532 678

Payables are being recognised net of any discounts received.

As prescribed by the MFMA, all payables are payable within 30 days. This credit period granted is considered to be in line with industry norms. The fair value of payables approximates their carrying value.

Payables are not secured.

9 UNSPENT PUBLIC CONTRIBUTIONS AND DONATIONS

Raymond Mhlaba Microcredit Fund (RMMF)	637 158	-
Total	637 158	-

Detail reconciliations of all public contributions and donations are included in note 12. Unspent balances are recognised to the extent that conditions are not yet met.

Due to the short term nature of unspent grant balances, the carrying value approximates the fair value of the unspent conditional grants at year-end.

10 CURRENT EMPLOYEE BENEFITS

Leave Provision	280 250	268 309
Total	280 250	268 309

The movement in Staff Leave are reconciled as follows:

Opening Balance	268 309	222 148
Contribution during the year	11 941	46 161
Balance at the end of the year	280 250	268 309

Staff leave accrued to employees according to collective agreement. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or in the event of encashment at termination.

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11 GOVERNMENT GRANTS AND SUBSIDIES		
Unconditional Grants - Other Sphere of Government	4 849 507	2 505 422
Raymond Mhlaba Local Municipality	4 849 507	2 505 422
Conditional Grants - National Government	-	2 809 004
Industrial Development Corporation (IDC)	-	2 809 004
Conditional Grants - Provincial Government	-	2 221 699
DEDEA - Nkonkobe Blockyard	-	2 221 699
Conditional Grants - Other	7 532 330	1 824 873
Services SETA	6 495 530	1 389 873
LG SETA	1 036 800	180 000
AGRI SETA	-	255 000
Total	12 381 836	9 360 998
Disclosed as:		
Government Grants and Subsidies - Capital		
Government Grants and Subsidies - Operating	12 381 836	9 360 998
	12 381 836	9 360 998

The movements per grant can be summarised as follows:

11.01 Raymond Mhlaba Local Municipality

Opening Unspent Balance		
Grants Received	4 849 507	2 505 422
Transferred to Revenue - Capital	-	-
Transferred to Revenue - Operating	(4 849 507)	(2 505 422)
Closing Unspent Balance	-	-

The grant received was as follow:

- Cash	1 750 000	1 300 000
- Payment of audit fees on behalf of Entity	3 099 507	1 205 422
Total	4 849 507	2 505 422

In terms of the service level agreement, the grant is for the provision of basic operational and administrative services.

11.02 Industrial Development Corporation (IDC)

Opening Unspent Balance		
Grants Received	-	2 809 004
Transferred to Revenue - Capital	-	-
Transferred to Revenue - Operating	-	(2 809 004)
Closing Unspent Balance	-	-

In terms of the service level agreement, the grant is for the establishment of the business unit and for administration and operational activities of the business unit.

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11 GOVERNMENT GRANTS AND SUBSIDIES (CONTINUED)

11.03 DEDEA - Nkonkobe Blockyard

Opening Unspent Balance		2 221 699
Grants Received	-	-
Transferred to Revenue - Capital	-	-
Transferred to Revenue - Operating	-	(2 221 699)
Closing Unspent Balance	-	-

This grant is for the establishment of the blockyard project.

11.04 Services SETA

Opening Unspent Balance	-	-
Grants Received	5 858 841	1 265 488
Transferred to Revenue - Capital	-	-
Transferred to Revenue - Operating	(6 495 530)	(1 389 873)
Transfer to/(from) Receivables	636 689	124 385
Closing Unspent Balance	-	-

This grant is utilised for interns, stipends and training facilitators.

11.05 LG SETA

Opening Unspent Balance	-	-
Grants Received	1 036 800	180 000
Transferred to Revenue - Capital	-	-
Transferred to Revenue - Operating	(1 036 800)	(180 000)
Closing Unspent Balance	-	-

This grant is utilised for interns, stipends and training facilitators.

11.06 AGRI SETA

Opening Unspent Balance	-	-
Grants Received	-	255 000
Transferred to Revenue - Capital	-	-
Transferred to Revenue - Operating	-	(255 000)
Closing Unspent Balance	-	-

This grant is utilised for interns, stipends and training facilitators.

11.07 Total Grants

Opening Unspent Balance	-	2 221 699
Grants Received	11 745 147	7 014 914
Transferred to Revenue - Capital	-	-
Transferred to Revenue - Operating	(12 381 836)	(9 360 998)
Transfer to/(from) Receivables	636 689	124 385
Closing Unspent Balance	-	-

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12	PUBLIC CONTRIBUTIONS AND DONATIONS	
	Raymond Mhlaba Microcredit Fund (RMMF)	
Total		

The movements per public contribution can be summarised as follows:

12.01 Raymond Mhlaba Microcredit Fund (RMMF)

Opening Unspent Balance	-	-
Public Contributions Received	637 158	-
Transferred to Revenue - Capital	-	-
Transferred to Revenue - Operating	-	-
Closing Unspent Balance	637 158	-

The public contribution relates to monies received from a non-profit organisation based in Germany called Lemonaid & ChariTea. The monies are to be utilised for the funding of small businesses.

13 CONTRIBUTED PROPERTY, PLANT AND EQUIPMENT

Furniture and fittings	37 225	-
Total	<u>37 225</u>	-

14 OTHER INCOME

Other Income	59 000	67 356
Transport Fees	665 825	711 641
Sundry Income	3 256	28 496
CIPC Registration	114 860	40 904
Total	842 941	848 397

Transport Fees represent fees charged by the Entity for the transport of goods.

The CIPC Registration fees charges by the Entity to assist small businesses with company registrations.

15 EMPLOYEE RELATED COSTS

Basic Salaries and Wages	3 119 015	3 415 131
UIF Contributions	39 590	45 335
Medical Aid Contributions	186 559	197 016
Casual Wages	88 115	215 607
Skills Development Levy	55 756	51 122
Total	3 489 034	3 924 211

Employee Related Costs decreased due to two vacant positions which were not filled in the current year.

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15 EMPLOYEE RELATED COSTS (CONTINUED)

REMUNERATION OF MANAGEMENT PERSONNEL

Remuneration of the Chief Executive Officer

Annual Remuneration	971 525	891 307
Other benefits and allowances	18 000	18 000
UIF Contributions	1 785	1 785
Total	991 310	911 092

Remuneration of the Finance Manager (Acting)

Annual Remuneration	416 560	382 249
Medical Aid and UIF Contributions	24 999	31 615
Total	441 559	413 864

Remuneration of the Operations Manager (Acting)

Annual Remuneration	482 950	412 648
Other benefits and allowances	132 420	132 420
Medical Aid and UIF Contributions	24 999	23 217
Total	640 369	568 285

16 REMUNERATION OF BOARD MEMBERS

Ms Fezeka Maqwati (Acting Chairperson)	20 473	25 044
Mr Mpho Pebane	10 237	21 913
Mr Mlungisi Nyweba	13 649	15 652
Ms Vicky Nkomana	13 649	6 261
Total	58 008	68 871

The members of the board of directors are all non-executive directors.

17 DEBT IMPAIRMENT

Taxes	-	481 659
Receivables from Exchange Transactions	4 667	-
Total	4 667	481 659

18 DEPRECIATION AND AMORTISATION

Property, Plant and Equipment	362 838	335 548
Total	362 838	335 548

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		2017	2016
19	REPAIRS AND MAINTENANCE		
	Property, Plant and Equipment	-	-
	Total	-	-
	As previously reported	67 089	
	Reclassification - note 22.01	(67 089)	
	Restated balance	-	-
20	FINANCE CHARGES		
	Interest charged on overdue accounts	193 508	105 703
	Total	193 508	105 703
21	OTHER EXPENDITURE		
	Admin General Fees	79 755	39 881
	Advertising	4 212	37 261
	Audit Remuneration	513 275	1 509 907
	Bank Charges	22 384	37 936
	Cleaning	5 704	4 396
	Computer Expenses	9 415	11 938
	Consulting Fees	743 926	295 528
	Consumables	10 212	8 495
	Entertainment	7 984	51 339
	Insurance	67 637	68 916
	Magazines, Books and periodicals	3 189	1 752
	Maintenance Materials	13 205	11 252
	Maintenance Contracted Services	73 529	55 837
	Petrol and Oil	105 397	115 480
	Postage	1 133	1 636
	Printing and Stationary	32 077	81 581
	Rental of office equipment	1 422	26 345
	SETA Expenditure	4 259 645	1 141 997
	Security	4 058	4 317
	Staff welfare	6 694	8 246
	Subscriptions	-	1 399
	Telephone and Fax	296 301	319 995
	Travel and Subsistence	135 782	232 665
	Wetlands Project Expenditure	-	515 188
	Total	6 396 936	4 583 287
	As previously reported	4 516 198	
	Reclassification - note 22.01	67 089	
	Restated balance	4 583 287	

The SETA expenditure includes stipends paid to interns and services provided by training facilitators.

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22 PRIOR PERIOD ADJUSTMENTS - RECLASSIFICATION

22.01 Repairs and Maintenance

In the current year the Accounting Standards Board (ASB) issued a FAQ which states that the line item "Repairs and Maintenance" is no longer permitted in the Statement of Financial Performance, and that the said expenditure should be reclassified by its nature. Accordingly all "Repairs and Maintenance" expenditure was reallocated to "Other Expenditure" and classified by their nature as follow:

Maintenance Materials	11 252
Maintenance Contracted Services	55 837
Total	67 089

23 NET CASH FROM/(USED) OPERATING ACTIVITIES

Net Surplus/(Deficit) for the year	2 219 575	323 621
Adjusted for:		
Less: Non-Cash Revenue	(37 225)	-
Contributed Property, Plant and Equipment	(37 225)	-
Add: Non-Cash Expenditure	392 963	866 463
Debt Impairment	4 667	481 659
Depreciation and Amortisation	362 838	335 548
Contribution to Employee Benefits - Staff Leave	11 941	46 161
Loss on disposal of non-monetary assets	13 517	3 095
Operating Surplus before changes in working capital	2 575 313	1 190 084
Movement in working capital	(1 722 379)	(2 779 491)
Receivables from Exchange transactions	(14 045)	(111 882)
Receivables from non-exchange transactions	(636 689)	(124 385)
Inventory	399 434	(489 671)
Payables from exchange transactions	(2 058 273)	722 327
Unspent Conditional Government Grants	-	(2 221 699)
Unspent Public Contributions and Donations	637 158	-
Taxes	(49 963)	(554 180)
Cash Flow from Operating Activities	852 934	(1 589 407)

24 CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents comprise of the following:

Bank Accounts	942 794	33 177
Call Deposits	3 286	68 193
Cash on hand	145	620
Total	946 225	101 990

Refer to note 2 for more details relating to cash and cash equivalents.

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25 BUDGET COMPARISONS

Material variances are considered all variance greater than R100 000.

25.1 MATERIAL VARIANCES BETWEEN ORIGINAL AND FINAL BUDGET

Revenue

Government Grants and Subsidies were decreased as a result of the Service SETA programme implemented later than anticipated.

Interest earned was decreased due to Service SETA programme implemented later than anticipated.

Operating Expenditure

Other Expenditure was decreased as a result of the Service SETA programme implemented later than anticipated.

Capital Expenditure

Capital expenditure was decreased as a result of furniture donated from a private entity.

25.2 MATERIAL VARIANCES BETWEEN FINAL BUDGET AND ACTUAL OUTCOME

Revenue

Government Grants and Subsidies were less than budgeted for due to IDC grant monies not received and the implementation of the Microcredit Fund programme being delayed.

Other Revenue was less than budgeted due to operating losses suffered from the brick manufacturing.

Operating Expenditure

Employee Related Costs was less than budget due to two vacant positions which were not filled in the current year.

Other Expenditure was less than budgeted for due to IDC grant monies not received and the implementation of the Microcredit Fund programme being delayed.

Capital Expenditure

No material variances.

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26 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

26.1 UNAUTHORISED EXPENDITURE

Unauthorised expenditure consist out of the following:

Opening balance	-
Unauthorised expenditure current year	-
Approved by Board of Directors	-
Unauthorised expenditure awaiting approval	-

Unauthorised expenditure only relates to expenditure in excess of approved budget votes. No disciplinary steps or criminal proceedings were instituted as a result of unauthorised expenditure incurred.

	2017 (Actual) R	2017 (Final Budget) R	2017 (Unauthorised) R
Operating Expenditure	10 518 508	12 226 100	-
Capital Expenditure	8 699	80 000	-
Total	10 527 207	12 306 100	-

26.2 IRREGULAR EXPENDITURE

Irregular expenditure consist out of the following:

Opening balance	3 117 179	3 046 172
Irregular expenditure incurred	-	71 007
Approved by the Board	-	-
Irregular expenditure awaiting approval	3 117 179	3 117 179

Details of Irregular expenditure incurred:

Services procured without following three quotation system	-	71 007
Total	-	71 007

No disciplinary steps or criminal proceedings were instituted as a result of irregular expenditure incurred.

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26 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE (CONTINUED)

26.3 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure consist out of the following:

Opening balance	225 069	33 655
Fruitless and wasteful expenditure incurred	193 508	191 414
Approved by the Board	-	-
Fruitless and wasteful expenditure awaiting approval	418 576	225 069

Details of Fruitless and wasteful expenditure incurred :

Interest on late payments	193 508	191 414
Telkom	-	-
SARS	-	24 122
CIPC	-	300
Auditor General	193 508	166 992
Total	193 508	191 414

No disciplinary steps or criminal proceedings were instituted as a result of fruitless and wasteful expenditure incurred.

27 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

27.1 Audit Fees [MFMA 125 (1)(c)]

Opening balance	2 039 058	1 414 585
Expenditure incurred (Audit Fees and Finance Charges)	706 782	1 681 861
Payments	(2 745 841)	(1 057 388)
Outstanding Balance	-	2 039 058

27.2 PAYE, SDL and UIF [MFMA 125 (1)(c)]

Opening balance	8 452	57 905
Payments due to SARS	694 596	787 565
Payments	(703 048)	(837 018)
Outstanding Balance	-	8 452

27.3 PENSION AND MEDICAL AID CONTRIBUTIONS [MFMA 125 (1)(c)]

Payments due to pension fund and medical aid	274 673	197 016
Payments	(274 673)	(197 016)
Outstanding Balance	-	-

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**27 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE
(CONTINUED)**

27.4 QUOTATIONS AWARDED - DEVIATIONS FROM SCM

Service Provider	Reason for Deviation		
Fleet Dynamics	Truck has to be serviced due to warranty	18 688	-
Hertzner	Sole provider	2 024	-
Fleet Dynamics	Truck broke down and had to be towed	5 000	-
Fleet Dynamics	Truck has to be serviced at due to warranty	9 749	-
Buffalo Toyota	Bakkie Service	4 565	-
Hertzner	Registration of RMDA domain	2 510	-
Sage Pastel	Licence Renewal fee	4 488	-
Times Media	Only regional newspaper	4 802	-
Telkom	Sole provider	2 530	-
Total		54 357	-

28 CAPITAL COMMITMENTS

The Entity does not have any capital commitments at year-end.

29 FINANCIAL RISK MANAGEMENT

The Entity is potentially exposed to the following risks:

29.1 Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The following financial assets are exposed to credit risk:

Cash and Cash Equivalents	946 225	101 990
Receivables from Exchange transactions	155 938	146 560
Total	1 102 163	248 550

Cash and Cash Equivalents

Deposits of the Entity is only held at reputable banks that are listed on the JSE.

There are no restrictions on the cash deposits held and no cash were pledged as security. No collateral is held for any cash and cash equivalents.

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.2 Currency risk (Market Risk)

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The financial instruments of the municipality is not directly exposed to any currency risk.

29.3 Interest rate risk (Market Risk)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The following balances are exposed to interest rate fluctuations:

Cash and Cash Equivalents (excluding cash on hand)	946 080	101 370
Net balance exposed	946 080	101 370

Potential effect of changes in interest rates on surplus and deficit for the year:

0.5% (2016 - 0.5%) increase in interest rates	4 730	507
1.0% (2016 - 0.5%) decrease in interest rates	(9 461)	(507)

South Africa is currently in an upward interest rate cycle and management does not foresee a decrease in the next 12 months.

29.4 Liquidity risk

Liquidity risk is the risk encountered by the Municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is mitigated by approving cash funded budgets at all times to ensure commitments can be settled once due over the long term. The Municipality also monitors its cash balances on a daily basis to ensure cash resources are available to settle short term obligations.

The following balances are exposed to liquidity risk:

	Within 1 Year	Between 2 to 5 years	After 5 years
	R	R	R
30 JUNE 2017			
Payables from Exchange Transactions	474 405	-	-
Unspent Public Contributions and Donations	637 158	-	-
Total	1 111 563	-	-
30 JUNE 2016			
Payables from Exchange Transactions	2 532 678	-	-
Total	2 532 678	-	-

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.5 Other price risk (Market Risk)

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Municipality is not exposed to any other price risk.

30 FINANCIAL INSTRUMENTS

The Entity recognised the following financial instruments at amortised cost:

Financial Assets

Cash and Cash Equivalents	946 225	101 990
Total	946 225	101 990

Financial Liabilities

Payables from exchange transactions	474 405	2 532 678
Unspent Public Contributions and Donations	637 158	-
Total	1 111 563	2 532 678

31 STATUTORY RECEIVABLES

In accordance with the principles of GRAP 108, Statutory Receivables of the Entity are classified as follows:

Unspent Public Contributions and Donations	761 074	124 385
VAT Receivable	449 238	399 275
Total	1 210 312	523 660

32 EVENTS AFTER REPORTING DATE

A new entity named Raymond Mhlaba Economic Development Agency (Soc) Ltd was registered on 1 July 2017. On the same date Nkonkobe Economic Development Agency (SoC) Ltd will cease to exist and all assets and liabilities will be transferred as a going concern to the newly established agency.

33 IN-KIND DONATIONS AND ASSISTANCE

Furniture were donated to the Entity as disclosed in note 13.

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34 PRIVATE PUBLIC PARTNERSHIPS (PPP's)

The Entity is not currently engaged in any PPP's.

35 CONTINGENT LIABILITIES

The Entity does not have any contingent liabilities.

36 RELATED PARTIES

Related parties are defined in note 1.31.

36.1 Related Party Transactions

The following related party transactions took place between Raymond Mhlaba Local Municipality and the Entity:

Grants Received from Raymond Mhlaba Local Municipality	4 849 507	2 505 422
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36.2 Related Party Balances

The Entity had no related party balances.

36.3 Compensation of management personnel and board members

Remuneration of management personnel and board members are respectively disclosed in notes 15 and 16.

37 TAXATION

The Entity is exempt from Income Tax.